

**REPORT OF THE AUDIT OF THE
BULLITT COUNTY
CLERK**

**For The Year Ended
December 31, 2001**



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Kenneth Rigdon, County Judge/Executive
Honorable Nora McCawley, Bullitt County Clerk
Members of the Bullitt County Fiscal Court

The enclosed report prepared by Stephens & Lawson, PSC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Bullitt County, Kentucky, for the year ended December 31, 2001.

We engaged Stephens & Lawson, PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Stephens & Lawson, PSC, evaluated the Bullitt County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
BULLITT COUNTY CLERK**

Calendar Year 2001

EXECUTIVE SUMMARY
BULLITT COUNTY
NORA MCCAWLEY, COUNTY CLERK
CALENDAR YEAR 2001
FEE AUDIT

The Bullitt County Clerk's 2001 fee audit was contracted to Stephens & Lawson, PSC through a request for proposal (RFP). We were unable to issue an opinion on the financial statements due to deficiencies in the accounting system of the Bullitt County Clerk.

Financial Condition:

According to the Clerk's statement, excess fees decreased by \$36,644 from the prior calendar year, resulting in a cash surplus of \$373,663 as of December 31, 2001. Revenues increased by \$827,697 from the prior year and disbursements increased by \$864,341.

Report Comments:

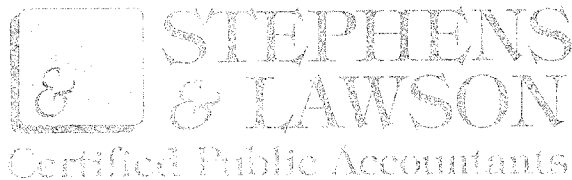
- The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Bullitt County Clerk's Office
- The Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Enter Into A Written Agreement To Protect Deposits
- The County Clerk Should Settle Excess Fees With The Fiscal Court By March 15th

Deposits:

On April 3, 2001 \$206,615 of the Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. In addition, the Clerk did not have a written agreement with the depository institution securing the Clerk's interest in the collateral.

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Independent Auditors' Report

We were engaged to audit the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Bullitt County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Clerk.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As described in the accompanying comments and recommendations, the County Clerk did not maintain complete and accurate records of the financial activities of the Bullitt County Clerk's office for calendar year 2001. Therefore we were not able to satisfy ourselves as to the completeness of transactions, accounts, events, and other information that should be presented in the statement of receipts, disbursements, and excess fees of the County Clerk of Bullitt County, Kentucky.

Because of the significance of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statement referred to above.

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2003, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

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Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Kenneth Rigdon, County Judge/Executive

Honorable Nora McCawley, Bullitt County Clerk

Members of the Bullitt County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Bullitt County Clerk's Office
- The Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Enter Into A Written Agreement To Protect Deposits
- The County Clerk Should Settle Excess Fees With The Fiscal Court By March 15th

Respectfully Submitted,

Stephens & Lawson, P.S.C.

Audit fieldwork completed -
January 13, 2003

BULLITT COUNTY
NORA MCCAWLEY, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

RECEIPTS

State Fees For Services		\$	2,042
Fiscal Court			17,335
Licenses and Taxes:			
Motor Vehicle -			
Licenses and Transfers	\$	1,519,119	
Usage Tax		5,460,055	
Tangible Personal Property Tax		4,553,521	
Licenses -			
Marriage		18,428	
Beer & Liquor		2,845	
Deed Transfer Tax		214,950	
Delinquent Tax		420,197	12,189,115
Fees Collected For Services:			
Recordings -			
Deeds, Easements, and Contracts	\$	56,704	
Real Estate Mortgages		186,631	
Chattel Mortgages and Financing Statements		164,987	
Powers of Attorney		1,207	
All Other Recordings		69,643	
Charges for Other Services -			
Candidate Filing Fees		960	
Copywork		17,532	497,664
Other:			
Adjustment			17,781
Interest Earned			19,019
TOTAL RECEIPTS (CARRIED FORWARD)		\$	12,742,956

The accompanying notes are an integral part of the Financial Statement.

BULLITT COUNTY
NORA MCCAWLEY, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 2001
(Continued)

DISBURSEMENTS

Payments to State:

Motor Vehicle -

Licenses and Transfers	\$ 1,120,640
Usage Tax	5,293,669
Tangible Personal Property Tax	1,707,896

Licenses -

Candidate Filing Fees	540
Delinquent Tax	47,152
Legal Process Tax	60,620
Marriage Licenses	7,209
	<hr/>
	\$ 8,237,726

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 478,160	
Delinquent Tax	34,883	
Deed Transfer Tax	204,206	
Beer & Liquor License	2,392	719,641
	<hr/>	

Payments to Other Districts:

Tangible Personal Property Tax	\$ 2,166,675	
Delinquent Tax	162,727	2,329,402
	<hr/>	

Payments to Sheriff 5,171

Payments to County Attorney 50,986

Operating Disbursements and Capital Outlay:

Personnel Services -

Deputies' Salaries	\$ 513,795
Voting Machine Custodian	6,600
Other Payroll Disbursements	83,834

Employee Benefits -

Employer's Share Social Security	43,753
Employer's Share Retirement	41,066
Employer's Paid Health Insurance	36,048

Contracted Services -

Indexing Services	31,309
Printing and Binding	8,153
Software Lease	13,200

Materials and Supplies -

Office Supplies	79,732
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Other Charges -

Conventions and Travel	1,155
Other Expenses	5,599
Postage	9,262

The accompanying notes are an integral part of the Financial Statement.

BULLITT COUNTY
NORA MCCAWLEY, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2001
 (Continued)

DISBURSEMENTS (Continued)

Capital Outlay - Office Equipment	<u>\$ 78,879</u>	<u>\$ 952,385</u>	
Total Disbursements			<u>\$ 12,295,311</u>
Net Receipts			\$ 447,645
Less: Statutory Maximum			<u>70,382</u>
Excess Fees			\$ 377,263
Less: Expense Allowance			<u>3,600</u>
Excess Fees Due County for Calendar Year 2001			\$ 373,663
Payment to County Treasurer			<u>-</u>
BALANCE DUE AT COMPLETION OF AUDIT			<u><u>\$ 373,663</u></u>

The accompanying notes are an integral part of the Financial Statement.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NOTE 2 – EMPLOYEE RETIREMENT SYSTEM

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

BULLITT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

NOTE 3 - DEPOSITS

The Clerk maintained deposits of public funds with two depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Clerk entered into a written agreement with one depository institution and met requirements (a), (b), and (c) stated above. However, as of April 3, 2001, the collateral and FDIC insurance together did not equal or exceed the amount of deposit, leaving \$206,615 of public funds uninsured and unsecured. In addition, the Clerk did not have a written agreement with the other depository institution securing the Clerk's interest in the collateral.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 3, 2001.

	Bank Balance
Insured and collateralized with securities held by the county official's agent in the county official's name	\$ 700,000
Uncollateralized and uninsured	<u>206,615</u>
Total	<u><u>\$ 906,615</u></u>

NOTE 4 – ESCROW ACCOUNT

The Clerk has an account used for mechanic and material lien bonds. The account had one bond of \$3,900. The account earned interest of \$108 during calendar year 2001. The balance in the account was \$4,121 as of December 31, 2001.

NOTE 5 – GRANT

The Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives. There was an unexpended balance of \$363 at the beginning of the calendar year. The account earned interest of \$9 during calendar year 2001. The unexpended grant balance is \$372 as of December 31, 2001.

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COMMENTS AND RECOMMENDATIONS

BULLITT COUNTY
NORA MCCAWLEY, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

Calendar Year 2001

STATE LAWS AND REGULATIONS:

01-01 The County Clerk Should Keep Complete And Accurate Records Of The Financial Activity Of The Bullitt County Clerk's Office

During the course of our audit, we noted the following deficiencies in the accounting system of the Clerk's office:

- The County Clerk did not prepare and file the financial statements for the third and fourth quarters of 2001 with the Department for Local Government in a timely manner.
- The County Clerk did not prepare or publish an annual settlement as required by KRS 424.120.
- In the final financial statement for calendar year 2001, the receipts section of the report is not mathematically accurate. The total of the line item receipts as reported on the financial statement does not agree to the amount shown on line 39 for total receipts.
- Receipts and disbursements per the bank accounts (fee account and auto account) cannot be reconciled to the amount of receipts and disbursements as shown on the final financial statement.
- The receipts and disbursements of the fee account, as maintained in QuickBooks, do not agree to the amounts reported on the final financial statement.
- Deposits per the manual ledgers for both the fee and auto accounts do not reconcile to the amounts deposited per the bank.
- Failure to prepare bank reconciliations on all depository accounts.
- It appears that social security and Medicare withholdings were/are being incorrectly computed on employees W-2's.

We recommend that the County Clerk establish sufficient internal controls over the financial accounting and reporting to ensure timely preparation of complete and accurate financial reports as required by KRS 68.210.

County Clerk's Response:

During calendar year 2001 I started to use a new computer system, QuickBooks, which was set up by a bookkeeper then left to me to manage. The bookkeeper updated the system in the middle of the year, but I was never able to fully implement and operate the system in time to adequately account for and report the receipts and disbursements for calendar year 2001.

01-02 The Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits And Enter Into A Written Agreement To Protect Deposits

On April 3, 2001 \$206,615 of the Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Clerk require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. In addition, the Clerk did not have a written agreement with the depository institution securing the Clerk's interest in the collateral.

County Clerk's Response:

This matter should be corrected for calendar year 2002.

BULLITT COUNTY
NORA MCCAWLEY, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS- CONTINUED

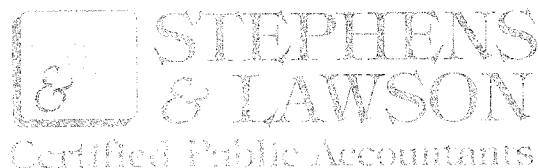
01-03 The County Clerk Should Settle Excess Fees With The Fiscal Court By March 15th

KRS 64.152 requires that the County Clerk provide a statement of receipts and expenditures of the preceding calendar year, and settle excess fees with fiscal court by March 15th, each year. For calendar year 2001, the County Clerk still has not settled with the fiscal court as of January 13, 2003. We recommend that the County Clerk comply with this statute in the future and make payment to the fiscal court of the excess fees for calendar year 2001.

County Clerk's Response:

Excess fees for 2001 will be remitted to the fiscal court as soon as possible and will be paid by March 15th in future years.

**REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



To the People of Kentucky

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Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of the Financial
Statement Performed in Accordance With Government Auditing Standards

We were engaged to audit the Bullitt County Clerk as of December 31, 2001, and have issued our report thereon dated January 13, 2003. Our report on the statement of receipts, disbursements and excess fees stated that because of incomplete and inaccurate financial records the scope of work was not sufficient to enable us to express, and we did not express, an opinion on the financial statements. We were engaged to conduct an audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Bullitt County Clerk's financial statement as of December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

Because of the significance of the reportable condition and material weakness discussed below, we were not able to perform the tests required to determine the compliance with certain provisions of laws, regulations, contracts and grants.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bullitt County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Bullitt County Clerk's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations as item 01-01.

Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of the Financial
Statement Performed in Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 01-01 to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully Submitted,

Stephens & Lawson, P.S.C.

Audit fieldwork completed -
January 13, 2003

